

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Sault Ste. Marie Housing Commission	County Chippewa
Audit Date 3/31/04	Opinion Date 6/22/04	Date Accountant Report Submitted to State: 9/15/04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

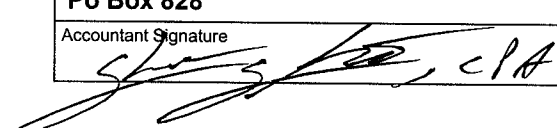
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).	✓		
Single Audit Reports (ASLGU).	✓		

Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC			
Street Address Po Box 828		City Iron Mountain	State MI
Accountant Signature 		ZIP 49801	Date 9-15-04

SAULT STE MARIE HOUSING COMMISSION

FINANCIAL STATEMENTS

For the Year Ended March 31, 2004

SAULT STE MARIE HOUSING COMMISSION

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ANDERSON, TACKMAN & COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

A Regional Firm with Offices in Michigan and Wisconsin

Principals - Iron Mountain:
L. Robert Schaut, CPA
David J. Johnson, CPA
Shane M. Ellison, CPA

Member of:
Private Companies Practice Section
American Institute of Certified
Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
Sault Ste Marie Housing Commission
Sault Ste Marie, Michigan

We have audited the accompanying general purpose financial statements of Sault Ste Marie Housing Commission ("Commission") as of and for the year ended March 31, 2004, as listed in the table of contents. These general purpose financial statements are the responsibility of the Board of Commissioners and management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in "Government Auditing Standards", issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of Sault Ste Marie Housing Commission as of March 31, 2004, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with "Government Auditing Standards", we have also issued our report dated June 22, 2004, on our consideration of Sault Ste Marie Housing Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with "Government Auditing Standards" and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The Financial Data Schedule listed in the table of contents and the accompanying Schedule of Expenditures of Federal Awards as required by *U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations* are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of Sault Ste Marie Housing Commission. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

ANDERSON, TACKMAN & COMPANY, P.L.C.
Certified Public Accountants

Iron Mountain, Michigan
June 22, 2004

SAULT STE MARIE HOUSING COMMISSION
- ENTERPRISE FUND

BALANCE SHEET

March 31, 2004

ASSETS

CURRENT ASSETS:

Cash and equivalents	\$ 588,098
Accounts receivable	43,001
Investments	588,922
Prepaid expenses	11,995
Interprogram due from	20,965

TOTAL CURRENT ASSETS	1,252,981
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FIXED ASSETS:

Land and improvements	2,906,332
Buildings	12,249,882
Equipment	441,219
Construction-in-progress	18,508

Less accumulated depreciation	15,615,941 (9,003,766)
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NET FIXED ASSETS	6,612,175
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TOTAL ASSETS	\$ 7,865,156
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LIABILITIES AND EQUITY

LIABILITIES:

Accounts payable	\$ 30,842
Accrued liabilities	154,149
Interprogram due to	20,965

TOTAL CURRENT LIABILITIES	205,956
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OTHER LIABILITIES	26,634
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TOTAL LIABILITIES	232,590
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EQUITY:

Contributed capital - net of accumulated depreciation	5,288,586
Retained earnings - unreserved	2,343,980

TOTAL EQUITY	7,632,566
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TOTAL LIABILITIES AND EQUITY	\$ 7,865,156
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The accompanying notes to financial statements are an integral part of this statement.

SAULT STE MARIE HOUSING COMMISSION
- ENTERPRISE FUND

STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN RETAINED EARNINGS

For the Year Ended March 31, 2004

OPERATING REVENUES:

Tenant revenue	\$ 637,479
Other operating revenues	\$ 61,435
Program grants-subsidies	<u>1,081,592</u>
 TOTAL OPERATING REVENUES	 <u>1,780,506</u>

OPERATING EXPENSES:

Administration	330,357
Tenant services	30,347
Utilities	223,447
Maintenance	311,482
General	100,319
Housing assistance payments	154,901
Depreciation	<u>591,344</u>
 TOTAL OPERATING EXPENSES	 <u>1,742,197</u>

OPERATING INCOME	<u>38,309</u>
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OTHER INCOME (EXPENSES):

Other expense	(27,133)
Gain on sale of fixed assets	100
Interest income	19,422
Other income	<u>75</u>
 TOTAL OTHER INCOME (EXPENSES)	 <u>(7,536)</u>

NET INCOME	30,773
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ADD:

Depreciation on assets acquired with contributed capital	447,620
Section 8 equity adjustment	556

RETAINED EARNINGS, BEGINNING OF PERIOD	<u>1,865,031</u>
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RETAINED EARNINGS, END OF PERIOD	<u><u>\$2,343,980</u></u>
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The accompanying notes to financial statements are an integral part of this statement.

SAULT STE MARIE HOUSING COMMISSION
-ENTERPRISE FUND

COMBINING STATEMENT OF CASH FLOWS

For the Year Ended March 31, 2004

CASH FLOWS FROM OPERATING ACTIVITIES:

Net income	\$ 30,773
Adjustments to reconcile operating income to net cash provided from operating activities:	
Depreciation	591,344
(Gain) on sale of fixed assets	(100)
Change in assets and liabilities:	
(Increase) Decrease:	
Accounts receivable	21,812
Prepaid expenses	(3,528)
Other assets	31,504
Increase (Decrease):	
Accounts payable	(40,746)
Accrued liabilities	(2,914)
Other liabilities	(26,678)

NET CASH PROVIDED FROM OPERATING ACTIVITIES	<u>601,467</u>
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CASH FLOWS FROM INVESTING ACTIVITIES:

Proceeds from sale of fixed assets	100
Purchase of fixed assets	(529,726)
Purchase of investments	<u>(77,928)</u>

NET CASH (USED) BY INVESTING ACTIVITIES	<u>(607,554)</u>
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NET INCREASE IN CASH	(6,087)
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CASH AND EQUIVALENTS, BEGINNING OF YEAR	<u>594,185</u>
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CASH AND EQUIVALENTS, END OF YEAR	<u><u>\$ 588,098</u></u>
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The accompanying notes to financial statements are an integral part of this statement.

SAULT STE MARIE HOUSING COMMISSION
-ENTERPRISE FUND

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

NOTE A - NATURE OF BUSINESS AND SUMMARY OF ACCOUNTING POLICIES

The Sault Ste Marie Housing Commission (Commission) was formed in 1961 under the criteria established for low income housing programs by the United States Department of Housing and Urban Development. The Commission operates under a board of commissioners appointed by the City Council.

It is the Commissions policy to apply accounting principles generally accepted in the United States of America to present fairly its financial position, results of operations, and cash flows. The significant accounting policies utilized by the Commission are described below:

- A. Reporting Entity- In evaluating how to define the Commission, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic -but not the only criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the Commission and/or it's constituents, or whether the activity is conducted within the geographic boundaries of the Commission and is generally available to it's constituents. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Commission is able to exercise oversight responsibilities.

Based upon the application of these criteria, the general purpose financial statements of the Sault Ste Marie Housing Commission contain all the funds and account groups controlled by the Commission's Board of Commissioners as no other entity meets the criteria to be considered a component unit of the Commission nor is the Commission a component unit of another entity.

SAULT STE MARIE HOUSING COMMISSION
-ENTERPRISE FUND

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

(Continued)

NOTE A - NATURE OF BUSINESS AND SUMMARY OF ACCOUNTING POLICIES
(Continued)

- B. Fund Accounting - The Commission uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain Commission functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

The following fund is used by the Commission:

Proprietary fund

Enterprise fund. To account for operations (1) that are financed and operated in a manner similar to private business enterprises, in which the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (2) when the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The Commission elects to apply FASB pronouncements issued on or after November 30, 1989 unless they conflict with or contradict GASB pronouncements.

- C. Basis of Accounting - The accrual basis of accounting is used by the proprietary fund. Under this method, revenues are recorded when earned. Expenditures are recorded when the related fund liability is incurred.
- D. Budgets - Budgets are adopted on a basis prescribed or permitted by the Department of Housing and Urban Development. All annual appropriations lapse at fiscal year end. The Commission follows these procedures in establishing the budgetary date reflected in the financial statements:

SAULT STE MARIE HOUSING COMMISSION
-ENTERPRISE FUND

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

(Continued)

NOTE A - NATURE OF BUSINESS AND SUMMARY OF ACCOUNTING POLICIES
(Continued)

D. Budgets (Continued)

1. The Director submits to the Board a proposed operating budget for the fiscal year commencing on April 1st. The operating budget includes proposed expenses and the means of financing them. Prior to March 31st, the budget is legally adopted by Board resolution.
2. Formal budgetary integration is employed as a management control device during the year.
3. The budget has been amended. Supplemental appropriations were made during the year with the last one approved prior to March 31st.

E. Cash and Equivalents - Cash and equivalents consist of cash in checking and saving accounts and cash on hand. For purposes of the statement of cash flows, the Commission considers all short-term debt securities purchased with a maturity of three months or less to be cash equivalents.

F. Investments – Investments are stated at fair market value.

G. Prepaid Expenditures - Prepaid expenditures, such as insurance premiums, which are expected to be written off within the next fiscal year are included in net current assets. Reported expenditures are equally offset by a fund balance reserve which indicates they do not constitute "available spendable resources" even though they are a component of net current assets.

H. Fixed Assets - Fixed assets are stated at cost.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized.

Depreciation is recorded in the proprietary fund using the straight-line method over the following years:

Building & improvements	10-40 years
Equipment	5-10 years

SAULT STE MARIE HOUSING COMMISSION
-ENTERPRISE FUND

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

(Continued)

NOTE A - NATURE OF BUSINESS AND SUMMARY OF ACCOUNTING POLICIES
(Continued)

- I. Interprogram Receivables and Payables – The current portion of lending/borrowing arrangements between programs are identified as “due to/from other programs”. The non-current portion of outstanding balances between programs are reported as “transfers to/from other programs”.
- J. Compensated Absences - Compensated absences are absences for which employees will be paid, such as vacation and sick leave. A liability for compensated absences that are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the government and its employees is accrued as employees earn the rights to the benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of the government and its employees are accounted for in the period in which such services are rendered or such events take place. Compensated absences that are expected to be liquidated with expendable available financial resources are reported as an expenditure and a liability.
- K. Equity - The retained earnings unreserved represents the amounts available for budgeting future operations. The financial statements include the Proprietary Fund with a cumulative fund balance at March 31, 2004 of \$2,343,980.

The contributed capital represents the contributions which were contributed to the Commission. They were recorded at their fair market values at the time of the contribution. The amounts are summarized as follows:

Balance, April 1, 2003	\$ 5,736,206
Deduct: Depreciation on fixed assets acquired with contributed capital	<u>(447,620)</u>
BALANCE, MARCH 31, 2004	\$ <u>5,288,586</u>

NOTE B – CASH & INVESTMENTS - CREDIT RISK

Petty Cash – The Commission maintains a petty cash fund in the amount of \$150.

Deposits - At year-end, the carrying amount of the Commission's deposits was \$587,948 and the bank balance was \$611,881. The Commission held deposits in excess of FDIC insurance in the amount of \$15.

SAULT STE MARIE HOUSING COMMISSION
-ENTERPRISE FUND

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

(Continued)

NOTE C - CASH & INVESTMENTS - CREDIT RISK

Investments consisted of interest bearing cash and investment accounts and were in accordance with State of Michigan statutes. Those statutes do not mandate that accounts be partially or fully insured or collateralized. However, the U. S. Department of Housing and Urban Development (HUD) requires that all funds be fully collateralized in excess of the insured amount. The Commission's investments were fully collateralized at March 31, 2004.

Cash and investments are classified as to credit risk by the following three categories.

Category 1 - Insured or registered, or securities held by the Commission or its agent in the Commission's name.

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department.

Category 3 - Uninsured and unregistered, with securities held by the counterparty, or by it's trust department or agent but not in the Commission's name.

The Commission's cash and investments are categorized as follows:

	<u>Category</u>			<u>Bank</u>	<u>Market</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Balance</u>	<u>Value</u>
Petty Cash	\$ 150	\$ -	\$ -	\$ -	\$ 150
Cash and Equivalents	587,948	-	-	611,881	587,948
Certificates of Deposit	<u>588,922</u>	<u>-</u>	<u>-</u>	<u>588,922</u>	<u>588,922</u>
	<u>\$1,177,020</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$1,200,803</u>	<u>\$ 1,177,020</u>

NOTE D - FIXED ASSETS

	<u>Balance</u>		<u>Balance</u>
	<u>4-1-03</u>	<u>Additions</u>	<u>3-31-04</u>
Land	\$ 460,439	\$ -	\$ 460,439
Land improvements	2,424,020	21,874	2,445,894
Building & improvements	11,750,168	499,714	12,249,882
Equipment	440,140	41,279	441,218
Construction in progress	<u>38,510</u>	<u>457,887</u>	<u>18,508</u>
	<u>\$15,113,277</u>	<u>\$1,020,754</u>	<u>\$15,615,941</u>

SAULT STE MARIE HOUSING COMMISSION
-ENTERPRISE FUND

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

(Continued)

NOTE E - USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE F - DEFINED BENEFIT PENSION PLAN

The City of Sault Ste. Marie participates in a statewide government agent multiple-employer public pension plan which covers substantially all employees, including employees of the Economic Development Corporation. The City also maintains a single-employer, defined benefit pension plan which covers substantially all Police and Fire employees.

Plan Description

The City contributes to the Michigan Municipal Employees Retirement system, an agent multiple employer public employee retirement system that acts as a common investment and administrative agent for units of local government in Michigan. The system provides the following provisions: normal retirement, deferred retirement and service retirement to plan members and their beneficiaries. All full-time employees become a member of the System on the first day of employment, and are completely vested after 10 years of service (6 years for general non-union). Service retirement allowances are based upon percentages ranging from 1 to 2.5 percent of 3 to 5-year final average compensation depending on benefit program selected, social security coverage, etc. The most recent period of which actuarial data was available was for the fiscal year ended December 31, 2001.

MERS was organized pursuant to Section 12a of Act #156, Public Acts of 1851 (MSA 5.333 (a); MCLA 46.12 (a), as amended, State of Michigan. MERS is regulated under Act No. 427 of Public Acts of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 447 North Canal Street, Lansing, Michigan 48917-9755.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's collective bargaining unit and personnel policy, which requires employees to contribute to the plan. The City is required to contribute at an actuarially determined rate.

SAULT STE MARIE HOUSING COMMISSION
-ENTERPRISE FUND

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

(Continued)

NOTE F- DEFINED BENEFIT PENSION PLAN (Continued)

The contribution rate as a percentage of payroll at December 31, 2001 is as follows:

General – Public Works	3.65%
General – Non-Union	3.99%
General – Clerical	6.91%

Annual Pension Cost

During the fiscal year ended June 30, 2002, the City's contributions totaling \$95,993 were made in accordance with contribution requirement determined by an actuarial valuation of the plan as of December 31, 2001. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years.

The employer normal cost is, for each employee, the level percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level of percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the members retirement to pay for this projected benefit. Significant actuarial assumption used include a long-term investment yield rate of 8 percent and annual salary increases of 4.5 percent based on an age-related scale to reflect merit, longevity, and promotional salary increases.

GASB 25 INFORMATION (AS OF 12/31/01)

Actuarial Accrued Liability	
Retirees and beneficiaries currently receiving benefits	\$ 5,479,882
Terminated employees not receiving benefits	193,725
Current employees:	
Accumulated employee contributions including allocated investment income	2,156,270
Employer financed	<u>5,009,174</u>
 Total Actuarial Accrued Liability	 \$12,839,051
 Net Assets Available for Benefits at Actuarial Value (Market value is \$15,509,244)	 <u>13,781,949</u>
 Unfunded (Overfunded) Actuarial Accrued Liability	 \$ <u>(942,898)</u>

SAULT STE MARIE HOUSING COMMISSION
-ENTERPRISE FUND

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

(Continued)

NOTE F- DEFINED BENEFIT PENSION PLAN (Continued)

GASB 27 INFORMATION (AS OF 12/31/01)

Fiscal Year Beginning	July 1, 2001
Annual Required Contribution (ARC)	\$151,096
Amortization Factor Used	0.060208

Three-Year Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Accrued Actuarial Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
12/31/96	\$11,595,394	\$11,375,476	(219,918)	102	\$3,254,530	0%
12/31/97	12,586,970	12,141,035	(445,935)	104	3,280,115	0
12/31/98	13,781,949	12,839,051	(942,898)	107	3,367,527	0

SUPPLEMENTARY DATA

SAULT STE MARIE HOUSING COMMISSION

Enterprise Fund

Financial Data Schedule

March 31, 2004

Line Item #	Account Description	Business Activities	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
ASSETS:						
CURRENT ASSETS:						
Cash:						
111	Cash - unrestricted	\$ 13,530	\$ 549,479	\$ 25,089	\$ -	\$ 588,098
100	Total cash	13,530	549,479	25,089	-	588,098
Accounts and notes receivables:						
122	Accounts receivable- HUD Other Projects	-	-	6,263	13,954	20,217
124	Accounts receivable- Other government	17,384	-	-	-	17,384
126	Accounts receivable- tenants - dwelling rents	-	18,857	-	-	18,857
126.1	Allowance for doubtful accounts - dwelling rents	-	(15,084)	-	-	(15,084)
129	Accrued interest receivable	-	1,627	-	-	1,627
120	Total receivables, net of allowances for doubtful accounts	17,384	5,400	6,263	13,954	43,001
Current investments						
131	Investments - unrestricted	-	588,922	-	-	588,922
142	Prepaid expenses and other assets	-	11,995	-	-	11,995
144	Interprogram due from	-	20,965	-	-	20,965
150	TOTAL CURRENT ASSETS	30,914	1,176,761	31,352	13,954	1,252,981

NONCURRENT ASSETS:

See accompanying notes to financial statements

SAULT STE MARIE HOUSING COMMISSION

Enterprise Fund

Financial Data Schedule

March 31, 2004

Line Item #	Account Description	Business Activities	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
	Fixed assets:					
161	Land	-	460,439	-	-	460,439
162	Buildings	-	11,791,066	-	458,816	12,249,882
163	Furniture, equipment & machinery - dwelling	-	185,223	-	-	185,223
164	Furniture, equipment & machinery - administration	-	244,961	11,035	-	255,996
165	Leasehold improvements	-	2,426,820	-	19,073	2,445,893
166	Accumulated depreciation	-	(8,990,222)	(1,822)	(11,722)	(9,003,766)
167	Construction-in-progress	-	-	-	18,508	18,508
160	Total fixed assets, net of accumulated depreciation	-	6,118,287	9,213	484,675	6,612,175
180	TOTAL NONCURRENT ASSETS	-	6,118,287	9,213	484,675	6,612,175
190	TOTAL ASSETS	\$ 30,914	\$ 7,295,048	\$ 40,565	\$ 498,629	\$ 7,865,156

See accompanying notes to financial statements

SAULT STE MARIE HOUSING COMMISSION

Enterprise Fund

Financial Data Schedule

March 31, 2004

Line Item #	Account Description	Business Activities	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
LIABILITIES AND EQUITY:						
LIABILITIES:						
CURRENT LIABILITIES						
312	Accounts payable ≤ 90 days	\$ 150	\$ 29,271	\$ 1,421	\$ -	\$ 30,842
321	Accrued wages/payroll taxes payable	-	26,051	-	-	26,051
322	Accrued compensated absences - current portion	-	9,414	526	-	9,940
333	Accounts payable - other government	-	34,331	-	-	34,331
341	Tenant security deposits	-	65,182	-	-	65,182
342	Deferred revenues	-	18,645	-	-	18,645
347	Interprogram due to	5,716	-	1,295	13,954	20,965
310	TOTAL CURRENT LIABILITIES	5,866	182,894	3,242	13,954	205,956
354	Accrued compensated absences - non current	-	25,480	1,154	-	26,634
350	TOTAL NONCURRENT LIABILITIES	-	25,480	1,154	-	26,634
300	TOTAL LIABILITIES	5,866	208,374	4,396	13,954	232,590

See accompanying notes to financial statements

SAULT STE MARIE HOUSING COMMISSION

Enterprise Fund

Financial Data Schedule

March 31, 2004

Line Item #	Account Description	Business Activities	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
EQUITY:						
Contributed Capital:						
504	Net HUD PHA contributions	-	5,259,619	-	-	5,259,619
507	Other contributions	-	28,967	-	-	28,967
508	Total contributed capital	-	5,288,586	-	-	5,288,586
Reserved fund balance:						
512	Undesignated fund balance/retained earnings	25,048	1,798,088	36,169	484,675	2,343,980
513	TOTAL EQUITY	25,048	7,086,674	36,169	484,675	7,632,566
600	TOTAL LIABILITIES AND EQUITY	\$ 30,914	\$ 7,295,048	\$ 40,565	\$ 498,629	\$ 7,865,156

See accompanying notes to financial statements

SAULT STE MARIE HOUSING COMMISSION

Enterprise Fund

Financial Data Schedule

For the Year Ended March 31, 2004

Line Item #	Account Description	Business Activities	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
REVENUE:						
703	Net tenant rental revenue	\$ -	\$ 582,460	\$ -	-	\$ 582,460
704	Tenant revenue - other	-	55,019	-	-	55,019
705	Total tenant revenue	-	637,479	-	-	637,479
706	HUD PHA grants	-	369,452	155,004	32,166	556,622
706.1	Capital grants	-	-	-	457,887	457,887
708	Other government grants	67,083	-	-	-	67,083
711	Investment income - unrestricted	83	19,243	96	-	19,422
714	Fraud recovery	-	-	75	-	75
715	Other revenue	30,910	30,525	-	-	61,435
716	Gain on sale of fixed assets	-	100	-	-	100
700	TOTAL REVENUE	98,076	1,056,799	155,175	490,053	1,800,103
EXPENSES:						
Administrative						
911	Administrative salaries	7,654	125,178	10,188	27,096	170,116
912	Auditing fees	19	3,900	300	-	4,219
914	Compensated absences	-	5,059	185	-	5,244
915	Employee benefit contributions- administrative	2,262	37,757	3,545	7,136	50,700
916	Other operating- administrative	14,499	77,355	8,224	-	100,078
	Total Administrative	24,434	249,249	22,442	34,232	330,357

See accompanying notes to financial statements

SAULT STE MARIE HOUSING COMMISSION

Enterprise Fund

Financial Data Schedule

For the Year Ended March 31, 2004

Line Item #	Account Description	Business Activities	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
Tenant services						
921	Tenant services - salaries	16,517	4,129	-	-	20,646
923	Tenant services - employee benefit contributions	6,965	1,773	-	-	8,738
924	Tenant services - other	-	963	-	-	963
	Total Tenant services	23,482	6,865	-	-	30,347
Utilities						
931	Water	-	85,339	-	-	85,339
932	Electricity	-	20,913	-	-	20,913
933	Gas	-	117,195	-	-	117,195
	Total Utilities	-	223,447	-	-	223,447
Maintenance						
941	Ordinary maintenance and operations - labor	-	129,544	-	-	129,544
942	Ordinary maintenance and operations - materials & other	1,629	45,647	-	-	47,276
943	Ordinary maintenance and operations - contract costs	-	91,055	-	-	91,055
945	Employee benefit contributions- ordinary maintenance	-	43,607	-	-	43,607
	Total Maintenance	1,629	309,853	-	-	311,482

See accompanying notes to financial statements

SAULT STE MARIE HOUSING COMMISSION

Enterprise Fund

Financial Data Schedule

For the Year Ended March 31, 2004

Line Item #	Account Description	Business Activities	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
General expenses						
961	Insurance premiums	-	51,072	-	-	51,072
963	Payments in lieu of taxes	-	34,331	-	-	34,331
964	Bad debts - tenant rents	-	14,916	-	-	14,916
	Total General Expenses	-	100,319	-	-	100,319
969	TOTAL OPERATING EXPENSES	49,545	889,733	22,442	34,232	995,952
970	EXCESS OPERATING REVENUE OVER OPERATING EXPENSES	48,531	167,066	132,733	455,821	804,151
971	Extraordinary maintenance	-	26,883	-	-	26,883
972	Casualty loss - non capitalized	-	250	-	-	250
973	Housing assistance payments	24,004	-	130,897	-	154,901
974	Depreciation expense	-	578,795	827	11,722	591,344
900	TOTAL EXPENSES	73,549	1,495,661	154,166	45,954	1,769,330

See accompanying notes to financial statements

SAULT STE MARIE HOUSING COMMISSION

Enterprise Fund

Financial Data Schedule

For the Year Ended March 31, 2004

Line Item #	Account Description	Business Activities	Low Rent Public Housing	Housing Choice Vouchers	Public Housing Capital Fund Program	TOTAL
1010	TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	-	-
1000	EXCESS (DEFICIENCY) OF TOTAL REVENUE OVER (UNDER) TOTAL EXPENSES	\$ 24,527	\$ (438,862)	\$ 1,009	\$ 444,099	\$ 30,773
MEMO account information						
1103	Beginning equity	521	6,715,645	34,604	850,467	7,601,237
1104	Prior Period Adjustments, Equity Transfers	-	809,891	556	(809,891)	556
1112	Depreciation "add back"	-	447,620	-	-	447,620
1113	Maximum Annual Contributions Commitment (Per ACC)	-	-	152,908	-	152,908
1115	Contingency Reserve, ACC Program Reserve	-	-	5,444	-	5,444
1116	Total Annual Contributions Available	-	-	158,352	-	158,352
1120	Unit months available	-	3,127	600	-	3,727
1121	Number of unit months leased	-	3,108	588	-	3,696

See accompanying notes to financial statements

SAULT STE MARIE HOUSING COMMISSION

FEDERAL AUDIT REPORTS

For the Year Ended March 31, 2004

SAULT STE MARIE HOUSING COMMISSION

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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH “GOVERNMENT AUDITING STANDARDS”**

Board of Commissioners
Sault Ste Marie Housing Commission
Sault Ste Marie, Michigan

We have audited the financial statements of the Sault Ste Marie Housing Commission as of and for the year ended March 31, 2004, and have issued our report thereon dated June 22, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in “*Government Auditing Standards*”, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Sault Ste Marie Housing Commission’s general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under “*Government Auditing Standards*”.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Sault Ste Marie Housing Commission’s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information of the Board of Commissioners, management and the Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.

ANDERSON, TACKMAN & COMPANY, P.L.C.
Certified Public Accountants

Iron Mountain, Michigan
June 22, 2004

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH SPECIFIC
REQUIREMENTS APPLICABLE TO MAJOR HUD PROGRAMS AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Commissioners
Sault Ste Marie Housing Commission
Sault Ste Marie, Michigan

Compliance

We have audited the financial statements of Sault Ste Marie Housing Commission as of and for the year ended March 31, 2004 and have issued our report thereon dated June 22, 2004.

We have also audited Sault Ste Marie Housing Commission's compliance with the specific program requirements governing; activities allowed or un-allowed, allowable costs, cash management, Davis-Bacon act, period of availability of federal funds, procurement and suspension and debarment and reporting, that are applicable to each of its major HUD-assisted programs for the year ended March 31, 2004. The management of Sault Ste Marie Housing Commission is responsible for the compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit of compliance with those requirements in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in "*Government Auditing Standards*", issued by the Comptroller General of the United States; OMB Circular A-133, "*Audits of States, Local Governments, and Non-Profit Organizations*"; and the provisions of the *Public and Indian Housing Compliance Supplement* dated May 25, 1995 and extended by PIH Notice 96-32. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis evidence about the Authority's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Sault Ste Marie Housing Commission complied, in all material respects, with the requirements described above that are applicable to each of its HUD-assisted programs for the year ended March 31, 2004.

Internal Control Over Compliance

The management of Sault Ste Marie Housing Commission is responsible for establishing and maintaining effective internal controls over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Sault Ste Marie Housing Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations,

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH SPECIFIC
REQUIREMENTS APPLICABLE TO MAJOR HUD PROGRAMS AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**
(Continued)

contracts and grants, that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of the Board of Commissioners, management, the U.S. Department of Housing and Urban Development, and other Federal audit agencies and is not intended to be and should not be used by anyone other than these specified parties.

ANDERSON, TACKMAN & COMPANY, PLC
Certified Public Accountants

Iron Mountain, Michigan
June 22, 2004

SAULT STE MARIE HOUSING COMMISSION

Year End: March 31, 2004

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

<u>Federal Grantor/Pass Through Grantor</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
Operating Subsidy	14.850	\$ 369,452
Section 8 – Vouchers	14.871	155,004
Capital Funding	14.872	<u>490,053</u>
Total Department of Housing and Urban Development		<u>\$1,014,509</u>
TOTAL FEDERAL EXPENDITURES		<u>\$1,014,509</u>

See accompanying notes to schedule of expenditures of federal awards.

SAULT STE MARIE HOUSING COMMISSION

NOTES TO SCHEDULE OF FEDERAL FINANCIAL AWARDS

For the Year Ended March 31, 2004

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Sault Ste. Marie Housing Commission and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

NOTE B - COST REPORTS

Management has reported the expenditures in the Schedule of Expenditures of Federal Awards equal to those amounts reported in the modernization cost reports.

SAULT STE MARIE HOUSING COMMISSION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended March 31, 2004

A. SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion of the general purpose financial statements of the Sault Ste Marie Housing Commission.
2. There were no reportable conditions relating to the audit of the general purpose financial statements.
3. There were no instances of noncompliance material to the general purpose financial statements of the Sault Ste Marie Housing Commission.
4. There were no reportable conditions relating to the audit of the major federal award programs as reported in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditors' report on compliance for the major federal award programs for the Sault Ste Marie Housing Commission expresses an unqualified opinion.
6. There were no audit findings relative to the major federal award programs for the Sault Ste Marie Housing Commission.
7. The programs tested as major programs included:
 - A. Capital Fund - CFDA 14.872
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Sault Ste Marie Housing Commission was determined to be a low-risk auditee.

B. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

1. There were no findings or questioned costs.

C. PRIOR FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

1. There were no prior audit findings or questioned costs.